



What Should the City Do With Sick Leave Payouts?

Posted by [Pierluigi Oliverio](#) on Monday, February 21, 2011

Sick leave payouts are part of the City of San Jose budget deficit problem. These payouts do not discriminate; every employee including management accrues sick leave, and if employed with the City long enough, will be eligible for sick leave payout when they retire. One exception is that councilmembers do not accrue sick leave.

The City of San Jose has paid over \$28 million over the last two years for sick leave payouts. Upon retirement, the City pays out those sick leave hours at the current base pay plus other premium pay(s). Unfortunately, the Council/City failed to design a system that would track sick leave at the pay rate it was accrued. The City cannot go back and retroactively change the structure so that all employees sick leave is adjusted to the specific pay that their sick leave was accrued at. In hindsight the sick leave structure should have been one that pays out sick leave on the rate it was actually earned with a maximum cap but this was not how the past Council set it up.

Two years ago, I called for capping sick leave pay outs to no more than \$100,000 but there was little support to change the existing system. Any change to sick leave payouts then or now would require the City of San Jose to go through the Meet and Confer process with the unions. The Meet and Confer process can take as long as a year.

\$28 million is a significant amount of money; more than the annual citywide library budget and quarter of our budget deficit. In my view, we need to change the benefits on sick leave just as we will on pensions for new employees. It should be eliminated for new employees so that it is like the private sector, a use it or lose it benefit for those that are actually sick.

So now what do we do with everyone that was promised to be paid on their accumulated sick leave hours? There are different options, however, any change goes to the "Meet and Confer" process with the 11 Unions.

One option is to cap the amount of the payout to say no more than \$100,000, or \$80,000, pick your number. The other is to phase out sick leave over a number of years where the payout is reduced X percentage each year until the benefit is eliminated. Another option would be that the City pays out over time.

If the City must pay out another \$14 million in sick leave this year that means we do not have \$14 million to employ police or librarians to provide services to residents. Paying out another \$14 million in sick leave would

cause an undue burden to our residents. So instead of paying out \$14 million in one lump sum I would suggest we pay it out over 10 years or roll it into the employees' pensions. This would leave us with money on hand to keep city employees employed. Then, in the next budget year we would know the amount of the sick leave payout from the prior year and make subsequent budget cuts in the next fiscal years. However, we will have the same fiscal liability every year unless we change the current system.

Government is known for making promises it cannot keep. People and businesses downsize or use bankruptcy to reorganize their debt and obligations. If The City is avoiding the "B" word then we must figure out a way to keep San Jose afloat, since we will continue to have \$50 million increases in the pension system each year that is paid directly by the taxpayer.

Clearly if a person is about to retire, then they are getting out at a lucrative time and probably do not care about concessions. However, if you are an employee with less seniority (since merit is not a factor today) you may be more inclined to accept concessions to keep income coming in as being laid off is a 100 percent pay cut. Only time will tell but it will all hit the fan in the next few months.

Congratulations to the Association of Legal Professionals of The City of San Jose for being the first collective bargaining group to conduct their negotiations as public meetings. I attended and was enlightened to watch as a member of the public last Thursday.

Joint Venture Silicon Valley held their annual State of Silicon Valley 2011 last Friday at the San Jose Convention Center. Much of the time was spent on how cities and counties will have hard times the next five years due to rising pension costs and decreased revenues. The outlook was grim and the notion of never recovering and delivering services the same way was discussed. Therefore they advocated outsourcing and consolidating services among cities to cut out duplicate administrative positions.

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